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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002163

SIPDIS

STATE PASS AIT/W AND USTR
STATE FOR EAP/RSP/TC, EAP/EP, EB/IFD/OIA
USTR FOR SCOTT KI
USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE BOARD OF GOVERNORS,
AND SAN FRANCISCO FRB/TCURRAN

E.O. 12958: DECL: 04/19/2025

TAGS: [ECON](#) [EFIN](#) [PINR](#) [TW](#)

SUBJECT: ENSURING TAIWAN INSURANCE

REF: A. TAIPEI 1413

[1](#)B. TAIPEI 1797

Classified By: AIT DIRECTOR DOUGLAS PAAL, REASON 1.5 B/D

[1](#)1. (C) Summary: The challenges facing Taiwan's insurance sector include high guaranteed benefits, low earnings on investments, and intense competition. Downward pressure on the Taiwan insurance sector's overall capital position is made more worrisome by the lack of a market exit mechanism and inexperienced regulators. The AmCham Insurance Committee is dissatisfied with the method for certifying insurance companies to offer pension plans under Taiwan's new pension law. End Summary.

[1](#)2. (C) At an AmCham Insurance Committee luncheon on April 29, several U.S. lawyers and insurance executives complained that the top Taiwan insurance regulators lacked understanding of insurance products. A few days before, the new Financial Supervisory Commission (FSC) Insurance Bureau (IB) Director General (Thomas) Huang Tien Mu had admitted to AIT that most of his career experience was in banking and that he found the insurance sector was "far, far more complex and difficult" than banking. Dr. Huang was moved from his former position as Secretary General of the FSC to his new position on March 16, replacing Mark Wei who left government to join a private financial firm.

[1](#)3. (C) DG Huang told AIT that Taiwan's insurance sector, like its banking sector, has too many companies for Taiwan's market size, including a number of financially unsound companies that need help exiting the market. However, he said, in contrast to the highly fragmented banking sector, where only one or two banks have more than 10 percent market share, the insurance sector has a few dominant players as well as many small companies. The top five insurance companies control over 50 percent of Taiwan's insurance market. In all, 57 insurance companies, 29 life, 26 non-life, and two hazard insurance companies compete in the Taiwan market. Huang said the problems in IB were more difficult and complicated than what he had faced as Secretary General of the Bureau of Monetary Affairs, and the amounts of money involved in insurance were greater than commercial banks normally handle. Several of the small insurance companies each have less than one percent market share. While the large insurance companies make good profits, several of the small companies are in financial difficulty. Huang complained that there are no mechanisms to help weak insurance firms leave the market. The only insurance company closure happened over 40 years ago, according to Huang. The IB is currently trying to decide on mechanisms to assist unsound insurance companies to leave the market and to revise Taiwan's insurance law.

[1](#)4. (SBU) In the six years prior to Taiwan's entry into the WTO in January 2002, authorities greatly relaxed insurance regulations to better conform with WTO commitments. One result of the relaxation was that the number of companies selling insurance increased from only 16 in 1986 to the current 57. Falling interest rates in the late 1990s, together with the limited investment opportunities in Taiwan for large funds and restrictions on offshore investment led to the emergence of a "negative spread" problem. Due to the guaranteed benefit structure of most Taiwan insurance policies, insurance companies earn less on their investments than what they pay out in benefits to customers, putting significant downward pressure on the capital position of Taiwan insurance companies. The Taiwan government has tried to improve financial sector efficiency by first allowing, then urging the formation of financial holding corporations (FHC) that can sell innovative products, including a combination of insurance, banking, and securities products. Of the 14 FHCs currently operating in Taiwan, three operate in the life insurance sector. Over the past three years, the

Insurance Bureau (formerly in the Ministry of Finance and now formed under the FSC) has urged insurance companies to sell products where benefits are linked to investment vehicles rather than guaranteed in advance.

15. (C) Dr. Huang noted how low domestic interest rates and stagnant real estate prices were factors in the lack of attractive investment targets within Taiwan for large funds. The relatively small capitalization of Taiwan's stock market and delayed introduction of innovative financial products are other factors. Huang said the pressure on insurance companies could be eased somewhat by a plan to raise the limit on insurance firms, overseas investment from 35% of total insurance capital to 50%. This would allow insurance companies to put more of their capital into higher paying financial products found in more developed financial markets, and thus help deal with the issue of negative spread and deteriorating capital positions.
Taiwan Insurance Leads Banks in China

16. (C) Dr. Huang contrasted Taiwan's success in establishing insurance operations in China with the failure of banking operations to establish a foothold there. (Note: Cathay (GuoTai) Life Insurance Company of Taiwan set up a joint venture in Shanghai with the Oriental Airlines Company of China which began selling insurance products earlier this year. The venture currently sells 10 types of life insurance products, and is seeking to expand its business to bank insurance, and group insurance, targeting China-based Taiwan enterprises and local Chinese companies. End note.) Four other Taiwan insurance companies have applied to set up branches in China and are currently awaiting approval. According to Huang, the reason insurance companies can operate in China while banks cannot is that the world governing organization for insurance, the International Association of Insurance Supervisors, does not require a Memorandum of Understanding between insurance regulators in different countries for a branch to be established, whereas the international convention on banking does require this. No insurance companies from China have requested approval to enter Taiwan's market. Huang indicated that Vietnam was the current overseas target of choice for Taiwan life insurance companies.

Impact of New Pension Law -----

17. (C) Huang said the IB has continued liberalizing regulations, and no longer requires advance permission for issuance of standardized new products. The IB is currently working to revise Taiwan's insurance laws to further liberalize them and to deal with issues raised by Taiwan's new pension law, such as labor insurance, defined benefits, voluntary contributions, and upgraded death/injury compensation. Taiwan's new pension law is scheduled to take effect starting July 1, 2005. However, the bill establishing the "Labor Pension Fund Supervisory Committee" has still not been passed by the legislature.

18. (C) One of the main issues of concern in the AmCham Insurance Committee is how to become a "certified" company eligible to offer pension plans under the new pension law. Currently there are two local and six foreign firms that have been certified. According to the Council of Labor Affairs, an insurance company's Taiwan operations must be rated "A" by a recognized rating company, or the overseas parent company must be rated "A" and provide a guarantee for the Taiwan operations. AmCham has complained that an "A" from an international rating company is much more difficult to obtain than an "A" rating by a local Taiwan rating company, and has requested that this difference be taken into account in determining eligibility to sell pension products. The IB has not yet made a decision on this request.
PAAL